DOW THEORY LETTERS INC.

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April 6, DJIA 931.07, PTI 846, A-D ratio -9.63
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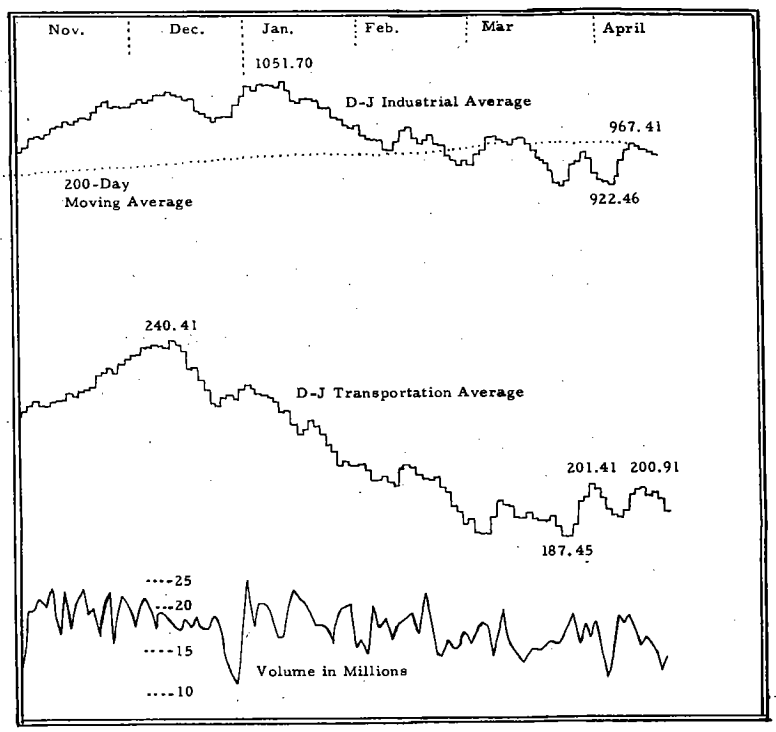
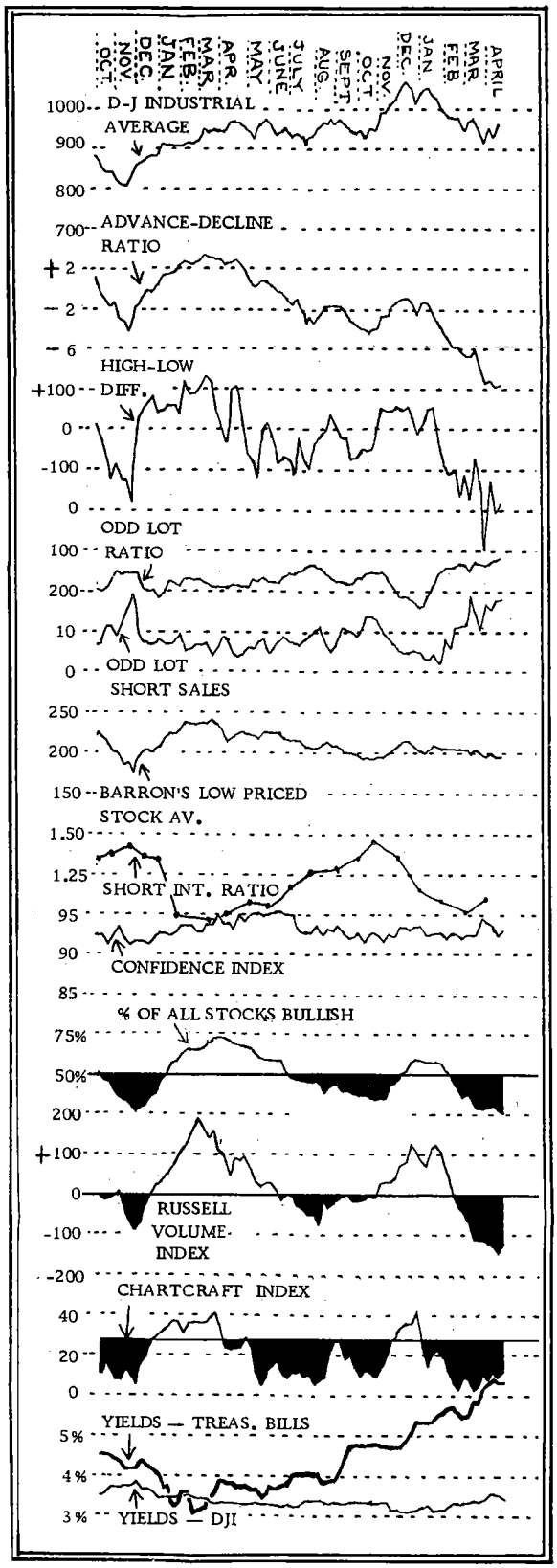
THE PICTURE: When I think of the enormity of the potential changes ahead, I can only gasp at the complacency of this nation. For instance, our local San Diego Union last Sunday published an article pointing (proudly) to the fact that San Diego County is becoming the darling investment haven for the Japanese. The article points to the fact that our Japanese friends are buying much land here and are planning (Sony is here already) many new Japanese projects with which to "service" the US market. Today I read that Japanese interests have purchased the famed Palace Hotel in San Francisco. Obviously, that's where that huge trade deficit-hoard of Japanese dollars is going — right back to the States to buy up the US. Pretty soon we may well see Japanese TV commercials stating, "We're bullish on America, and why shouldn't we be; we own it."

Then in last week's Financial World (see clip) I note that Editor Al Kingdon includes this little piece in his editorial comment. It would all be humorous if it wasn't so ominous. I've been warning that the US balloon must be deflated, and the bigger the balloon, the louder the ultimate explosion. I've also been urging readers to remember the economic golden rule, "He who has the gold makes the rules."

With the US facing unbelievably difficult energy problems in the period ahead, with the rise of Arab "energy-power" and European and Japanese "production-power," Uncle Sam is soon fated to awake, like Rip Van Winkle, from his long, inflationary sleep.

Suggestion three: The Arabs and money. This is not a fact yet, but certain eminent commentators and analysts from overseas, whose predictive records have been enviable, are now singing a new refrain. We quote from one recent commentary: "The highest experts of international economics have quietly and solemnly predicted to the inner circles of government that by the end of this decade the money reserves of Saudi Arabia and Iran combined will exceed the reserves of the United States and Japan combined. Add the reserves of all of the other Middle East countries, and the financial power of the globe will be centered with the Arabs."





 The US wanted its image, its Cadillacs, its giant defense budget, its towering deficits and its perpetual fantasies of being "Number One." Many centuries ago the Roman Empire found out that orgies only last so long, and then...

Thought: The crowning irony and the symbol of 1973 may be the 360 HP auto engine. That Detroit could be grinding out thousands of these monster-engines as US gas rationing begins is utterly unreal. In years to come, school children may study this paradox in an attempt to understand US schizophrenia.

* * * *

Last week secondary distributions on the NYSE jumped to 7, highest number since the week ending January 12. Thus with the Dow in its third week of rally, the big offerings again start "coming out of the walls." So much for my "seat-of-the-pants" observation.

Here's the second. I don't like the way the retail stocks are acting in the face of booming retail sales. For instance, I thought that it was simply the A & P battle which was hitting the food chains throughout the nation. But I am beginning to see that it is something alot more fundamental. Last week I must admit I was aghast to see Kroger (the nation's third largest supermarket chain) drop below 18, thereby smashing all bottoms back to 1957. Kroger follows other great food chains such as A & P and National Tea to amazing new lows.

In other sectors of the retailing picture such stalwarts as Woolworths, Gimbels, Interstate Stores, Marcor, W.T. Grant, Levitz, Allied Stores, etc., retail outfits in all sectors of the economy from mail order to fashion clothing, are heading down. What's happening to the stores in the face of the biggest consumer goods boom in history? Or is the market discounting, looking ahead to the time when today's squeezed profit margins run into declining volume as well? It is a thought worth pondering.

In the last couple of Letters I pointed to the greatly oversold conditon of the market but warned that any rally might be viciously selective, even from the standpoint of selectivity in the 30 Dow Industrials themselves. Furthermore, I cautioned that the Dow could be forming a massive "head-and-shoulders" top with a "neckline" or base of support at around the 910 level.

In view of this, I am not (so far) impressed by the current rally which has bounced the Dow back to the 960-970 area. The quality of the advance has not been impressive, but it has served to add a "right shoulder" effect to the head-and-shoulders pattern which I described in previous mailings (see Letter 559).

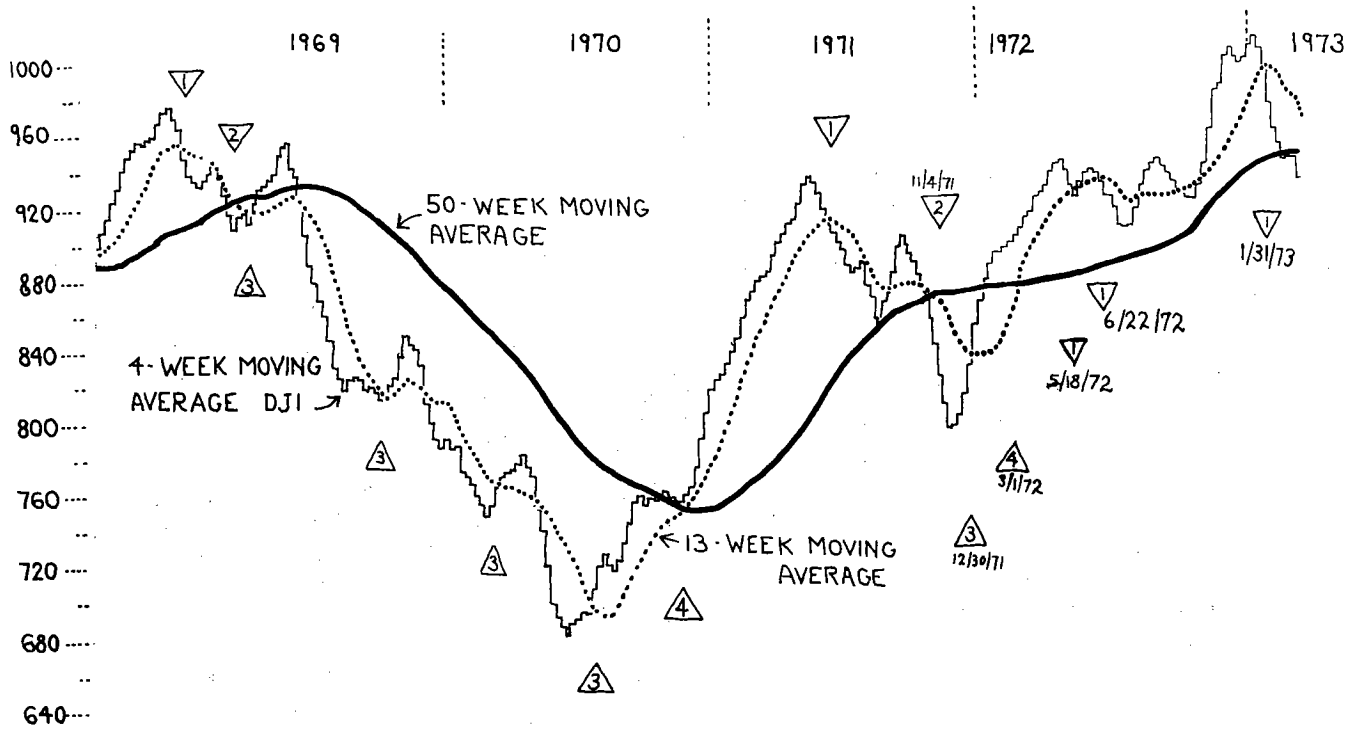
Two areas are worthy of comment at this time. First, daily new lows have <u>failed</u> to dry up on the advance. The nadir was the 73 new lows of April 10 (not a particularly low number). Since then new lows have <u>tended to expand</u> and rather steadily at that. Thus, selling pressure remains painfully visible in this market.

Secondly, the Primary Trend Index (PTI) rose only 20 points during the whole recent rally, a very weak performance in the face of the 45 Dow points gained (on any forceful move the PTI should match or surpass the Dow on a point for point basis). As of the April 17 market closing the PTI was only 2 points (!) away from its April 5 low (the 1973 low) of 842. Thus, any downside movement after April 17 should be viewed as definitely bearish for the market. (Again, I <u>urge</u> all subscribers to take the time to chart the three indicator figures which appear at the top of page 1 of each report).

Now to the price movement — the rally from the April 5 low of 922.46 took the Industrial Average to a closing high of 967.41 (April 11). Transports failed to confirm that move in that they refused by 50¢ to better their preceding March 29 high (see page 1 chart). This non-confirmation should be watched carefully. Unless Transports manage to better their March 29 peak of 201.41, I see trouble ahead for this "recovery." As a matter of fact, it is notable that the Transports have been rather weak following their April 11 (200.91) failure to better the March 29 high. A weak Transport segment constitutes a warning which should not be ignored.

<u>MOVING AVERAGES:</u> In the last few Letters I showed (via the advance-decline ratios and the Value-Line Average) how the recent period has been a disaster for most stocks and most stockholders. The big question, therefore, is not so much "What has happened to the average stock?" but simply "What is happening with the D-J Industrial Average?"

One of the studies which I believe tells us most about the Dow itself is the study of the <u>moving averages</u> of the D-J Industrials. The moving average (MA) is one of the oldest technical tools to be used in the stock market, and I find it most useful. The "good feature" of an MA is that if used properly, an MA buy signal will put you on the correct side of every market move. The "bad feature" of the MA is that you are liable to get whipsawed.



Since every movement in the market is made up of many smaller rallies and declines, a short term MA will get you into and out of a move quickly, but it will also produce the most whipsaws. Conversely, a long term MA will produce few whipsaws, but it will have the disadvantage of getting into and out of movements on the late side. For this reason, I use three different MA's in my studies of the Dow Industrials.

Note on the chart that I show a very long-term or 50-week MA of the Dow (the heavy line). I also include an intermediate-term or 13-week MA of the Dow (the dotted line). Finally, I show a short-term or 4-week MA of the Dow (the thin, black line). The relationship of these lines at any given time is significant.

A #1 or preliminary sell signal is given when the 4-week MA drops below the 13-week MA. A #2 or major sell signal is given when the 13-week MA sinks below the 50-week MA. A #3 or preliminary buy signal is provided when the 4-week MA climbs above the 13-week MA. A #4 or major buy signal occurs when the 13-week MA rises above the 50-week MA.

As one studies the five-years depicted on this chart, it is clear that following the major or #2 and #4 signals would put the investors on the right side of every major movement. Following all the #1 and #3 signals would have resulted in a good many whipsaws, and for this reason I call the #1 and #3 signals the preliminary signals.

It should be remembered that no moving average study will produce good results in a trading range-type of market. Conversely, the moving average approach brings the best results in markets which produce movements which are major in both duration and extent. For this reason, the #2 sell signal of 1969 was an excellent one. The #4 buy signal of 1970 was a good one. But the #2 sell signal of 1971 came within a trading range market (for the Dow), and the trader was whipsawed when the #4 buy signal of early-1972 took place at a higher level.

Because of the possibility of trading range whipsaws, I prefer to use the whole moving average study as a confirmatory tool. In other words, if the technical structure of the market looks good, we can use the #3 and #4 signals as confirmations of correct buying. Conversely, if the market looks toppy we can use #1 and #2 signals as confirmations of the "all out" stance.

Note that a preliminary or #1 sell signal was given on January 31, 1973. This was the most recent signal given under this study, and it came with the Dow at 999.02. Following that #1 sell signal, the 4-week moving average plunged to a point actually below the 50-week moving average. Although this does not constitute any kind of signal, such action does imply severe down-side compression.

When this situation occurred during 1969, the 4-week MA rallied back above the 50-week MA again. In the meantime, a #2 signal was given, and a few weeks later the market began collapsing. In 1971 following a #1 sell signal, the 4-week MA declined sharply, touched the 50-week MA, then rallied. On the next decline of the 4-week MA a #2 signal was given.

For the third time in five years we have a #1 signal with a drop in the 4-week MA which is severe enough to take the 4-week below the 50-week MA. If history repeats we can expect a good rally in the 4-week MA (and the general market), then a second decline in the 4-week MA with a major sell or #2 signal given. The moving averages will then be set for a potential major bear market decline. Remember, not all #2 signals are followed by major collapses, but (and this is the important factor) all major collapses have been preceded by #2 sell signals.

Based on "take-off" figures for the 13-week MA (which is now declining rapidly) a #2 sell signal could be given within a few weeks. If this occurs, it will be reported here.

CORPORATE "AUTO-CANNIBALISM": Much is being made these days of the dozens of corporations which are now buying their own stock on the open market. The usual thesis is that these corporations are extremely knowledgeable regarding the workings and true value of their own shares. If all these companies are gobbling up their own shares (and thus reducing their capitalizations, thereby boosting per share earnings), can they all be wrong? Doesn't this mean that "the market" is probably a great buy now? The answer is, "Not necessarily."

COMPANY	COMPANY	COMPANY	COMPANY
Advent Corp.	Dana Corp.	Harcourt Brace Jovanovich, Inc	Niagara Frontier Services Inc.
Airco Inc	Deere & Co.	Heinz Co.	NN Corp.
Alberto-Culver	Del Labs	Herff Jones	Norris Industries
Allied Control	Dictaphone	Hilton Hotels	Northwest Ind.
Allied Products	DiGiorgia Corp.	Hoover Co.	Norton Co.
Amer. Broadcasting	Dow Jones & Co.	Hughes & Hatcher	Olin Corp.
Amer. Cyanamid	Duro-Test	Illinois Central	Rainer Corp.
Ametek	Easco	INA	Raytheon Co.
AMF Inc	Eastern Gas & Fuel	Indian Head	Rockower Brothers
Astrosystems, Inc.	Easton Corp.	Insilco Corp.	Scott Foresman & Co.
Automation Ind	El-tronics Inc.	Int'l Minerals & Chemical	Singer Co.
Bath Industries	Emhart Corp.	Int'l Utilities	Sperry & Hutchinson
Bethlehem Steel	ERB Lumber Co	Interpublic Group	Standard Pressed Steel Co.
Brunswick	ESB Inc	Johns Manville	Starrett Housing
Burndy Corp.	FMC	Kawecki Berylco Industries	Statham Instr.
Bush Universal	Fansteel	Kidde (Walter) & Company Inc.	Stevocknit
Campbell Taggart	Federated Develop.	Krafico Corp.	Stride Rite Corp.
Cenco Inc	Film Corp. of Amer.	Loews Corp.	Sunbeam Corp.
Champion Int'l	Filmways	Marshall Field	Szabo Food Serv.
Colt International	First Security	Metromedia Inc.	Technicolor
Combined Ins. Co. of America	Fuqua Industries	Missouri Portland	Telco Marketing Services Inc.
Commodore Corp.	GAF Corp.	Mobile Home Ind.	Winkelman Stores
Community Health	Gino's Inc.	Nalco Chemical	Wilco Chem. Corp.
Computer Equipm't	Gladding Corp.	National Gypsum	World Airways Inc.
Consyne	Glen-Gery	National Industries	Zale Corp.
Continental Can	Gould Inc.	National Paragon	Zero Mfg.
Continental Corp.	Granite Management Services Inc.		
Cook Electric	Grolier		
Curtis Noll	Gulf Oil		
DPA Inc.	Gulf & Western		

For along comes Forbes magazine (April 15) with a study of 38 companies which purchased their own stocks. The period studied was the August, 1969-August, 1970 period. Here are the results of that "insider buying." Of all the companies, 22 did worse than the Dow during the period (12 actually declined in price). Only 13 of the 36 companies did better than S & P (two of the companies merged, bringing the study down from 38 to 36 companies). Only 6 companies out of the original 38 did well enough to double in price on the market.

The conclusion: The percentage of stocks purchased seemed to bear no relationship to market action. Nor did the fact that a company was buying its own stock seem to bear a relationship to whether that stock was going to rise. In other words, of the original 38 buyers, some did very well, some did not. Roughly 2/3rds of the corporations would have been better off buying the S & P Average than buying their own stock from the standpoint of market gains!

GREED: Any of us who have operated in the market for twenty years or more are bound to learn many things about human nature and therefore our own nature. One of the things I have learned is that greed and I don't mix well together. Call it mystery, call it coincidence, call it superstition, when I have operated on the basis of trying to make a "killing" (or even making a profit) for myself, it never happens. It just never, never happens.

Therefore, I've changed my way of thinking and I've changed my motives. I don't think in terms of filling my bank books anymore. Frankly, all I can eat is three meals a day, and I can't sleep any better under an antique four-poster than I can on a fifteen-buck slab of foam rubber. The museums around here are chock full of gorgeous art objects, the blue Pacific is free for all comers, the sky looks as good to me as it does to Norton Simon or Howard Hughes, and I have always preferred blue jeans to blue serge.

In my experience, the powers above give us what we need, seldom what we want (or what we "think we need"). It has taken me a long time to learn that there is a meaning in our being here, that we are here for a purpose. That purpose is to advance, and to help our neighbors to advance. Where are we going? Towards our true potential and civilization's true potential. I would guess that the vast majority of people use about 10% to maybe 20% of their potential. Men like Einstein, Freud, Edison, Jefferson, Washington, probably advanced to the point where they were using around 50% or more of their potential. We call these men geniuses. But who can say that the drunk laying in the gutter is not a potential genius, or the human wreck in the insane asylum, or your own dull-eyed neighbor, or your own child?

What has all this got to do with the stock market and greed? Simply this, and again I am speaking out of my own head; operate out of greedy motives to fatten your own belly, and I do not believe you will be a success in the stock market. I have known

a few men who I felt were greedy and who have made good money in the market. Ultimately, they either changed their thinking or their winnings turned to bitter gall. Most of the men I have known who made money in the market were not fascinated with money itself. It's true that they operated in the market because the market really interested them but they also were interested in people. And strangely, most of the market successes I know have not been particularly interested in material things.

We are given to so that we can give. If you are one of those talented readers who consistently makes money in the market, don't kid yourself (but you probably know this already), you have been given that talent in the form of a trust. Sure you can eat steaks instead of peanut butter sandwiches, but you are suppose to do more with your winning than change your diet.

If you are a reader who can never seem to make a profitable move in the market think about this: Why should you make money? Who will benefit if you make money? Man's wealth does not "live" after him. The poet Shelley wrote of the mighty Ozymandias, the king who boasted, "I am Ozymandias, king of kings. Look about me, ye mighty, and despair." The poem ends with the "great works" of Ozymandias scattered across the desert, ground into sand by the relentless power of time.

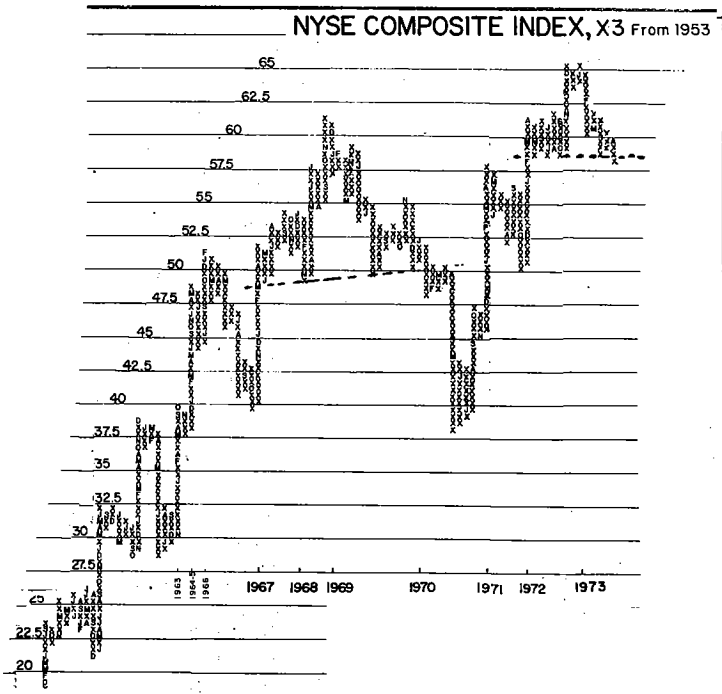
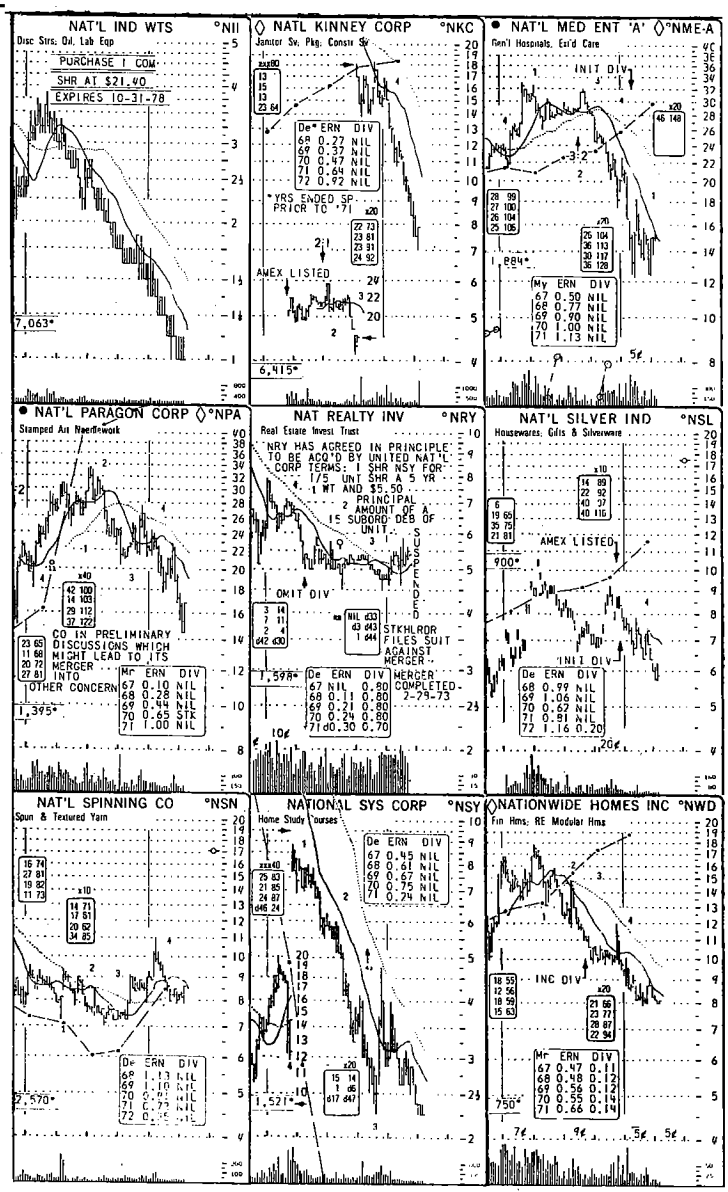


CHART OF THE WEEK: I include here a point & figure chart of the broadly based NYSE index, an index based on the change in all stocks on the Big Board. The chart is courtesy of Jim Dines' excellent Crosschart Book (18 E. 41st St., NYC 10017). Note first the massive "head-and-shoulders" top of 1967-69, which paved the way for the 1969-70 crash in the market.

Following the collapse and 1970 bottom, the NYSE Index climbed to its 1972 high. I find it significant that the 1972 peak was not appreciably above the former 1968 peak — and lo, another head-and-shoulders top has formed. As seen on the chart, this second H & S top has cracked its support (I have drawn the support lines as horizontal dashed lines in both H & S top formations).


NAT'L IND WTS °NII
Disc Strs, Oil, Lab Eqp
PURCHASE 1 COM
SHR AT $21.40
EXPIRES 10-31-78
7,063*
◇ NATL KINNEY CORP °NKC
Janitor Sv. Pkg. Consm Sv
AMEX LISTED
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NAT'L MED ENT 'A' ◇°NME-A
Gen'l Hospitals, Ed'l Care
INIT DIV
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CO IN PRELIMINARY DISCUSSIONS WHICH MIGHT LEAD TO ITS MERGER INTO OTHER CONCERN
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NAT REALTY INV °NRY
Real Estate Invest Trust
NRY HAS AGREED IN PRINCIPLE TO BE ACQ'D BY UNITED NAT'L CORP TERMS: 1 SHR NSY FOR 1/5 UNI SHR & 5 YR 1 WT AND $5.50 PRINCIPAL AMOUNT OF A 15 SUBORD DEB OF UNIT
OMIT DIV
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STKHLRDR FILES SUIT AGAINST MERGER
MERGER COMPLETED 2-28-73
NAT'L SILVER IND °NSL
Housewares, Gifts & Silverware
AMEX LISTED
INIT DIV
NAT'L SPINNING CO °NSN
Spun & Textured Yarn
2,570*
NATIONAL SYS CORP °NSY
Home Study Courses
1,521*
◇NATIONWIDE HOMES INC °NWD
Fin Hms; RE Modular Hms
INC DIV
750*

One should not be fooled by the relatively smaller size of the current H & S top, as compared with the 1967-69 affair. Some of the most violent declines have come from small, compact H & S top formations.

STOCKS: In the last Letter I wrote about the exit of the American public from the market. This is the same public to whom millions of shares of thousands of individual stock issues have been distributed. Unfortunately, that public doesn't want to hear about earnings, P/E ratios, prospects — nothing. They just want out! Everywhere I go, somebody walks up and says something like this: "Russell, my grandmother has been reading your reports and she tells me you've been advising gold, cash and no stocks. I see that you were right. Listen, I have a problem, I have this 900 shares of ..." And so it goes.

Quote Digest (PO Box 213, Wichita, Kansas 67201) is kind enough to send me their excellent, wide-coverage chart book each week. Quote provides a weekly coverage of the market which is absolutely outstanding. This week I wanted to "demonstrate" the Wall Street picture to my thousands of loyal, (happily) solvent readers. I swear to each and every one of you that I opened the Amex Quote and picked a page at random. It is a typical page, and I reproduce it on page 5 of this report.

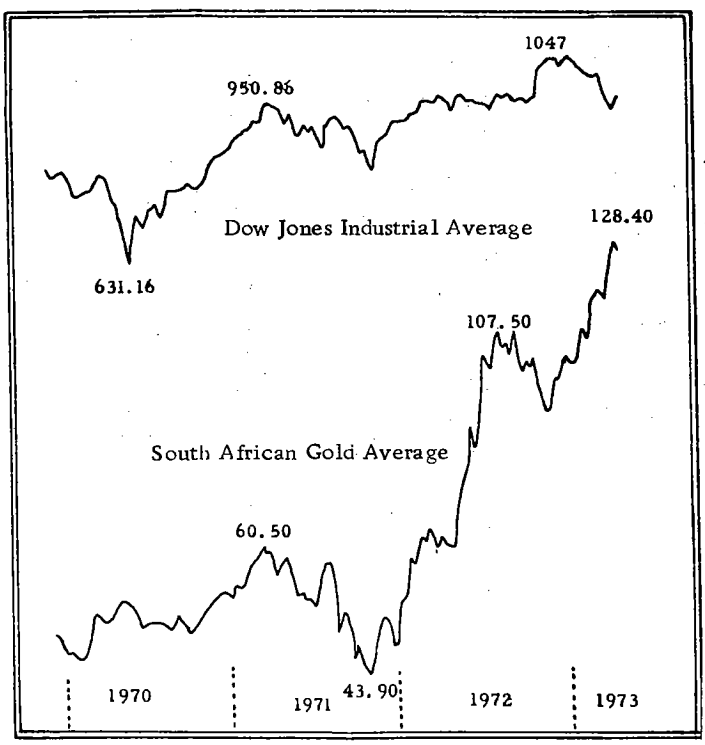
You think I've been kidding you about what's happening on Wall Street? Here are nine stocks. One (Nat. Realty) has been suspended due to a blocked merger suit. One (Nat. Spinning) has been moving sideways since 1972 but down since 1973. The other seven are in a state of collapse. That's the picture. And the Letters complaining about my bearishness over the past few years have strangely stopped.

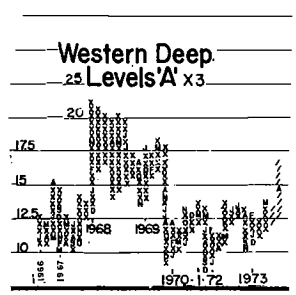
GOLD: As suggested here many times, when the price of gold "is right" many mines will begin upgrading their ore reserves while "finding" extraordinary new ore sources not hitherto suspected. This section from a New York Times article of last week gives testimony to the "added life" for the gold mines.

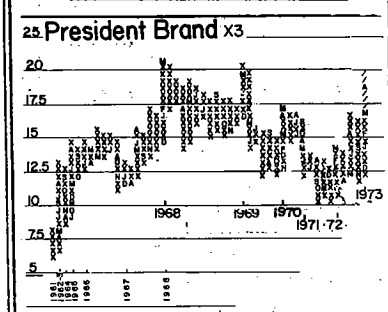
From the April 11 Christian Science Monitor comes a piece entitled "Gold Stock Head Skyward." The part that struck me is shown in the small clip below.

I include the S. African Gold Average on a ratio chart so that the movement can be compared with the Dow (on a percentage basis). As you can see, holders of gold shares, despite a steady barrage of anti-gold propaganda, did better than holders of Dow stocks (despite a steady barrage of bullish economic news). Moral: In the market it isn't the talk that makes you money, it's being right that makes you money.

I have also included P & F charts (thanks again, Jim Dines) of long-life Western Deep Levels and high yielding President Brand. I feel that both of these stocks can still be purchased. Both charts are bullish; both stocks are coming out of big bases.







The impact is being felt everywhere. Shoppers who browse through the jewelry district in mid-Manhattan will see a scale or balance on every counter. Proprietors calculate the price of a gold ring or bracelet after weighing it.

Jewelry stores with large inventories of gold items have received a windfall. And individuals who have hoarded gold jewelry have benefited similarly, even if holding gold for other than jewelry or numismatic purposes is illegal for Americans.

Special to The New York Times

JOHANNESBURG, April 6 — The rising price of gold has given South Africa's gold mines a new lease on life, according to an industry assessment of the country's 38 mines. Several mines that had prospects of continued operation for 10 years or less can now look forward to a productively rewarding existence of up to 20 years. Others may be able to extend their production in the long term to more than 20 years.

All of this is based on the assumption, confidently held by South Africa's mining industry, that gold will rise to an official price of $70 U.S. an ounce by 1975 and far higher as much as $120, within the next 15 years.

In some short-term mines there is considerable previously uneconomic ore. Exploitation of this and increased development operations paid for by the bigger incomes may now be possible.

"The rising prices of the past five years have revolutionized the thinking of the gold-mining industry both in South Africa and elsewhere," according to R. A. Plumbridge, vice president of the South African Chamber of Mines.

Typical of the confidence felt in the industry is the opinion of John Shilling, chairman of the three western Transvaal mines of the Anglo American Corporation of South Africa, Ltd. Price fluctuations notwithstanding, he said, the gold market appears to have "an underlying strength." Fast-rising costs are the problem, but prospects are bright, he added.

An example of the mining of previously unpayable blocks of ore is provided by Mr. Shilling in his latest report on the Vaal Reefs Mine, in which he says that of the tonnage mined in 1972, some 26.8 per cent comprised ore of a value below the price level based on the official gold price.